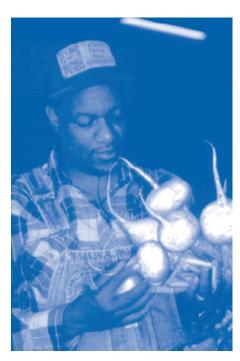
# **Policy Goal 1 Recognize the Importance and Cultivate the Strengths of Small Farms**



As outlined in the Introduction, small farms possess unique potential to "produce" not only foodstuffs, but a variety of economic, social, and environmental goods. Small farms are in a better position to respond to specialty products for a narrow consumer taste than larger, more standardized farming operations. When small farms optimize their small landholdings with a variety of crops farmed in rotation and integrated with livestock production, they produce a source of biological diversity and ecological resilience not found in larger, monocropping operations. When they directly market their production to consumers through farmers markets, pick-your-own or Community Supported Agriculture<sup>21</sup> methods, they provide urban people with a social connection to farming, farmers, and rural people and a health, fresh food supply.

The challenge, therefore, is to develop a national policy initiative that builds on the strengths and unique capabilities of small farms, that recognizes the social and ecological benefits of small farms, and that capitalizes on the labor and ingenuity of small farm operators to improve economic opportunity and benefits to rural communities. In situations where farmers have pursued offfarm employment for reasons of lack of farm profitability, the challenge is to create new opportunities for these farmers to increase their farm earnings. Innovative business strategies need to be designed to optimize the mix of labor, capital, and natural resources appropriate to the size and scale of small farms. Opportunities for farmers to use more knowledge and managementintensive production systems, rather than capital-intensive methods, are needed. Methods are needed that generate and sustainably utilize the natural productivity found in biologically diverse farming systems and more inputs can be derived from on-farm biological resources. For example, in some instances, livestock manure or cover crops can replace purchased nitrogen fertilizer.

At the same time, those policies that frustrate the potential of small farms should be identified and removed. In particular, policies that favor large farms disproportionately should be restructured to level the playing field among farms of all sizes and scales.

Some USDA programs disproportionately benefit those farms that are the least in need of government assistance. While about one-third of all farms participate in the Federal commodity programs, they have historically been designed to benefit larger farms. In 1995, the 11 percent of small farms which had gross sales between \$100,000 and \$249,999 received 28 percent of commodity program payments. Large farms (6 percent of all farms), with gross sales of

<sup>&</sup>lt;sup>21</sup> Community Supported Agriculture refers to a farm operation where customers buy shares in the annual production of the farm in exchange for a given amount of food on a weekly basis.

The opportunities that exist for small-scale agriculture have to do with relatively minor crops, specialty crops, highvalue crops, in many cases, organic fruit and vegetable production, and those types of commodities are not currently served by traditional experiment station structure or traditional USDA programs.

- Mark Gaskell, California

## Recommendation 1.1

#### Recommendation 1.2

more than \$250,000, received 31 percent of commodity program payments. Small farms averaged payments of \$11,174 per farm, while large farms received an average of \$20,048 per farm. The larger the farm, the larger the payment. Government payments account for only 2.4 percent of gross cash farm income for the very large farms, but are more critical to the smallest farms that rely on government payments for 41 percent of their gross cash farm income.<sup>22</sup>

Federal farm policy should recognize that large-scale agriculture is not and should not be the only model for agricultural production, but that multiple and diverse models are necessary for economic, ecological, and social stability in our food and agricultural system. This approach requires a new way of thinking about the contributions of small farms. It requires recognition that small farms produce social and environmental goods of value to society that warrant public support.

# Research and Extension

A great deal of agricultural research has focused on improving efficiency by utilizing ever greater levels of capital to enable fewer people to produce the Nation's food and fiber. Some of these technological applications demand investments that require increased scale of operation to achieve reasonable rates of return on investment. In other words, farms have grown in acreage to spread capital costs across more units of production and more of the profit has been captured by companies that sell inputs to farmers. The resulting gains in productivity, as measured in units of land or labor, have been the great success story of publicly funded agricultural research and technological innovation and adoption. But, relatively little research has focused on improving farm efficiency and income by developing new knowledge that enables farmers to use their management to reduce capital expenditures, produce products of higher value, and capture a larger share of the food dollar.

USDA's Research, Education and Economics (REE) Mission Area should design and implement a small farm research initiative dedicated to optimizing the skilled labor and ingenuity of small farmers and the biological assets of their farms using less capital-intensive investments. The research design should include biological, economic, and social research as an interdisciplinary approach. The initiative should respond both to the threats to small farm viability as well as to future opportunities not yet explored.

The Economic Research Service (ERS) should analyze the systems, strategies, and technologies used by successful small farms, to learn how USDA can better assist small farm operators in achieving success. Using existing farm records systems, ERS should identify small farms that are performing well

<sup>22</sup> Structural and Financial Characteristics of U.S. Farms, 1994/AIB-735. Economic Research Service, USDA. p. 21. "Government payments" includes all receipts from State and Federal governments, including deficiency payments, storage payments, disaster payments, conservation cost-share payments, CRP payments, etc.

The fact that we have fewer and fewer extension agents and fewer and fewer dollars going into our genetic preservation and into research and education, it's just tragic. The privatization of information and technology is the greatest hurdle faced by agriculture.

- John Happala, Oregon.

# **Recommendation 1.3**

# **Recommendation 1.4**

(have a low cost of production and are earning attractive family incomes) and conduct in-depth analysis of those farms, including their production systems, management strategies, technologies employed, and marketing approaches. Market research should analyze consumer preference trends that provide opportunities for small farms and identify the potential markets for exports from small-scale producers. For example, sales of organic produce, including exports, have grown 20 percent per year recently and are expected to rise with implementation of the National Organic Standards, but USDA's research portfolio includes only one-tenth of 1 percent of research relevant to organic farming.<sup>23</sup> The results should be used to identify research and other programs that could contribute to small farm success. This analysis should be conducted in partnership with land-grant universities, nonprofit organizations, and farmers themselves. The results of this research should be published in suitable format for reference and use by all farmers who may choose to implement the findings.

At the same time, ERS should assess the impact of national economic and policy forces influencing the prospects for small-scale agriculture. In particular, ERS should examine the threats and opportunities for small farms in the context of the 1996 FAIR Act and the North American Free Trade Agreement. This study should determine how these policies affect risk to small farms on a regional and commodity basis.

After identifying the principles of successful models, the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) should design research according to the principles in order to meet the specific needs of small farmers that maximize the potential productivity of their mix of assets. The research agenda should include the development of technologies appropriate for small-scale farms.

The ARS should commit to research strategies that will strengthen small farms. By the year 2002, at least two-thirds of the ARS research portfolio should consist of projects that have been determined to contribute to the income-earning capacity of small farms and their competitiveness in an increasingly industrialized agricultural economy. Adjustments in research directions should be made as needed to ensure that the overall impact of each major initiative is neutral or positive with respect to small farm opportunities. This initiative can be formulated by taking the following steps:

- **a)** Utilize results from the ERS study (1.2 above) to identify technological models that work for small farms and afford future market opportunities for small farms.
- **b)** Seek input on priority small farm research needs from small farmers, nonprofit organizations that work with small farmers, and land-grant scientists whose work is focused on strengthening small farms.

Written testimony of Mark Lipson, Organic Farming Research Foundation, Santa Cruz, CA. September 22, 1997.

- c) Conduct technology assessments to identify program areas and research directions most helpful to small farmers, including beginning farmers.
- d) Increase research to strengthen the competitiveness of small farm livestock production, address the plant breeding needs of small farmers using lowcapital sustainable production systems, and develop integrated farming systems for small farms.

USDA competitive grants programs for agricultural research and extension should prioritize research that contributes to the income-earning capacity and

# **Recommendation 1.5**

# **Recommendation 1.6**

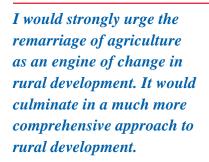
# Recommendation 1.7

competitiveness of small farms in an increasingly industrialized agricultural economy. Assessments of the impact of alternative research directions should be conducted to determine their impact on small farm viability. The assessments, together with input from small farm operators, nonprofit organizations and land-grant scientists who work with small farm operators, should be used to develop Requests for Proposals that emphasize small farm needs. Qualified small farm operators, and nonprofit organizations and land-grant scientists who work with small farm operators, should be included on proposal review panels. Program guidelines should be reviewed and barriers removed to participation by nonprofit institutions. A goal should be set to devote twothirds of CSREES production and marketing research by the year 2002 to projects that contribute to the income-earning capacity and competitiveness of small farms. Progress toward that goal should be measured annually.

The Research portion of the Fund for Rural America should be refined to more effectively support small farm opportunities by:

- a) Making clear, through the Requests for Proposals, as well as instructions to review panels, that increasing opportunities for small and beginning farmers are a priority of the rural development objectives of the Fund;
- b) Directing review panels to give equal importance to scientific merit and project relevance when evaluating proposals;
- c) Directing review panels to give highest scores to projects that address all three of the core Fund objectives — community, environment, and farm competitiveness — in determining the relevance of project proposals to solve real-world problems;
- **d)** Directing reviewers to give priority to projects that, where appropriate, involve participation of small farm operators and partnerships with nonprofit organizations that work with small farm operators; and
- e) Inviting small farm operators, representatives of nonprofit organizations that work with small farms, and land-grant scientists whose work addresses small farm concerns to serve on the review panels that make the final recommendation (not just as outside reviewers).

Rural Development's Appropriate Technology Transfer for Rural Areas program (ATTRA) and other small farm programs should develop a clearinghouse of available equipment and systems and a means to identify unmet



- Michael Sligh, North Carolina

needs. ATTRA should be formally consulted on a regular basis to provide analysis of what the small farm research needs are to REE agencies. With this information, USDA should collaborate with land-grant colleges, private companies, and small farmers to design machinery, equipment, and systems appropriate for small-scale agriculture.

# **Agriculture-based rural development**

Up until the 1950's, the economy of rural America was based primarily on agriculture. Today, agriculture is the dominant industry in only one-fourth of rural counties. Nonetheless, there are 556 counties, mostly in the Great Plains States, that derive 20 percent or more of their earned income from farming and are therefore classified by ERS as "farming dependent." From 1980 to 1990, 80 percent of farming-dependent counties lost population and farm jobs declined by 111,000. Young people left these communities in search of greater economic opportunity in careers other than farming. The 18- to 34-year-old population in farming-dependent counties declined 17 percent on average from 1980 to 1990.<sup>24</sup>

Farming-dependent counties, particularly those in the Great Plains, are generally suppliers of raw commodities that are typically shipped out of their communities for processing and value-adding activities elsewhere. Only about 10 cents of the consumer dollar spent on cereal and bakery products are returned to the producers in the grain-growing States of the Great Plains. These communities do not share in the full economic gains from the food industry.

There is a growing recognition among small farmers that if they are to boost their economic returns from farming, they need to find ways to earn a greater share of the consumer dollar by adding value to their own products. These strategies can include farmer-owned cooperatives and other business ventures for the purpose of value-added processing, production, and marketing of crops and livestock.

Because farming is a narrow-margin and high-risk business, rural economic development agencies and professionals have either dismissed or ignored agriculture as an industrial base with potential for growth in rural communities. For example, when contacting some of the State USDA Rural Development offices about upcoming meetings of the Commission in their region, more than once the staff responded by saying, "We no longer do farm programs." While they were referring to the farm credit programs that were moved to FSA, this response was an indication that the rural development programs are not perceived as relevant to farmers. Where agriculture is an important industry, job development could be enhanced through value-added processing, production, and marketing activities.

<sup>&</sup>lt;sup>24</sup> Understanding Rural America. Research report. 25 pp. February 1995. Stock # ERS-AIB-710.

USDA should dedicate a significant portion of its Rural Business – Cooperative Development loan, grant, and cooperative programs and Extension programming to agricultural-based rural development activities. These activities should be specifically tailored to the generation of greater economic opportunities from the products and potential of small farms in their rural communities.

### **Recommendation 1.8**

USDA Rural Development State Directors should include small farm operators and community-based and nonprofit organizations in their strategic planning processes, particularly with respect to the use of their rural business development programming for purposes of agricultural development. The strategic plan should be reviewed annually, with feedback and input from a variety of customers. Special outreach should be done to involve small farm operators, minorities, women, and non-English-speaking cultures. The strategic plans for the rural business development grant and loan programs should include development of agriculture-based businesses, as well as projects that strengthen a local food and agriculture economy through community farmers markets, public markets, and locally owned, value-added food processing businesses and microenterprises.

#### **Recommendation 1.9**

Where Rural Development (RD) State Directors have discretion to add additional priorities to the funding criteria for judging the Rural Business Enterprise Grant (RBEG) and Business & Industry (B&I) loan applications, <sup>25</sup> State Directors should develop a process for receiving input from stakeholders, including small farmers interested in pursuing value-added agricultural development. This process might include one or more of the following options:

- a) Establish State Small Farm-Business Councils to first assess current small farm needs and then develop methods of addressing those needs through the State Rural Development strategic plans. Membership in these Councils should include but not be limited to Farm Service Agency State Executive Directors; Resource Conservation and Development Councils; State economic development agencies; Cooperative Extension Small Farm directors, administrators, and agents; State departments of agriculture; Small Business Development Centers; district offices of the Small Business Administration; small farmers, American Indian and Alaska Native tribes, community-based and nonprofit organizations, and other farming interests.
- **b**) Set up a process similar to that described above, but utilize the infrastructure of the State Food and Agriculture Council (FAC).
- c) Solicit ideas for determining the kinds of agricultural development that should be funded with the RBEG and B&I funding within any given State. A "request for comment" period could be publicized in all rural newspapers within a State, asking for input in setting the priority criteria for these programs. Public meetings could also be held to gather input. The RD

<sup>&</sup>lt;sup>25</sup> RD Instruction 1942-G, 1942.305 (b) (3) and RD Instruction 4279-B, 4279.156 (b) (5), respectively.

State and local rural newspapers.

# Recommendation 1.10

Exclusively target Rural Business development funds including Rural Business Enterprise Grants, Business & Industry Loans, and the Intermediary Relending Program, to assisting the development of farmer-owned cooperatives for small farm operators and small business concerns as defined by the Small Business Act.<sup>26</sup> At least 50 percent of all RBEG grant funds should be targeted to give priority to projects that primarily benefit small farm operators, including

State Director would set the criteria based on input received and announce the criteria, available funds, and information for obtaining applications in

farmer-owned, value-added businesses, cooperatives, and farmland transition programs. A small farmer-owned value-added business and cooperative should be defined as one in which over two-thirds of the throughput comes from small farms.

# Recommendation 1.11

Extension should emphasize market development education and technical assistance to small farmers in addition to production assistance. These educational efforts should be directed at exploring new marketing avenues for small farms, like direct farm-to-consumer markets, local value-added processing, and farmer-owned cooperatives. Market development efforts like those undertaken in the Sustainable Agriculture Research and Education (SARE) program should be used as a model and expanded to other Extension programming. Extension efforts could assist small farmers by developing entrepreneurial training and development in natural resource-based industries. This kind of effort should focus on learning from established farmers and small business entrepreneurs with Extension participating as co-learners with potential entrepreneurs. Extension agents could be most helpful by serving as a facilitator of information and resource providers. This training should include the development of community-based entrepreneurial networks to provide continuous training, mentoring, and support for new business startups within a community. (See also Policy Goal 3, recommendation 3.27).

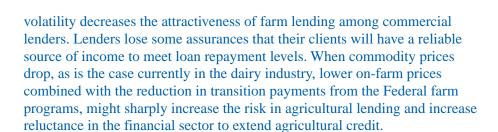


#### Farm credit

Agricultural operations require high levels of committed capital to achieve success. The capital-intensive nature of agricultural production makes access to financial capital, usually in the form of credit, a critical requirement. Small farms are no different from larger farms in this regard, but testimony and USDA reports received by this Commission indicate a general under-capitalization of small farms, and increased difficulty in accessing sources of credit.

The reduction of price and income support resulting from the 1996 FAIR Act can directly reduce income levels for farmers reliant on government payments and interject increasing instability in agricultural markets. Increased price

<sup>&</sup>lt;sup>26</sup> Sec. 3(a) (1) For the purposes of this Act, a small-business concern, including but not limited to enterprises that are engaged in the business of production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural related industries, shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation: Provided, that notwithstanding any other provision of law, an agricultural enterprise shall be deemed to be a small business concern if it (including its affiliates) has annual receipts not in excess of \$500,000.



Direct lending programs of the Federal Government have been increasingly curtailed by Congressional budget actions, diminishing the ability of the USDA to carry out its mission of assistance to America's small farmers. The shift from direct lending to guaranteed lending has been more beneficial to lenders than to farmers. The commercial banks realize virtually the same paperwork and out-of-pocket costs to create a \$10,000 FSA guaranteed loan as to create a \$250,000 loan under the same program, while income is 25 times higher for the larger loan in this example. The result is that small-sized loans and loans which banks are not comfortable with, are increasingly rare. The USDA farm credit program was created to provide a "lender of last resort" to America's small farmers; however, the move away from the direct lending portion of the program has increasingly thwarted this original purpose. Line-of-credit loans authorized in Section 614 of the 1996 FAIR Act were created in recognition of the long-term nature of agriculture, but are not yet implemented. The "Preferred Lender" and "Short Form Application" for guaranteed loans under \$50,000 as required in the 1992 Agriculture Credit Act Amendments are not yet implemented either.

Recommitment to USDA's mission as the "lender of last resort" is needed by focusing greater attention to serving the credit needs of small, minority, and beginning farmers. It should reverse the trend of shifting to guaranteed loans and accelerate action on pending credit regulations to the benefit of small farmers.

The FSA Administrator should continue a national direct lending and guaranteed lending policy that focuses these programs on small farmers, especially minority and beginning farmers. The policy should include a requirement that repayment periods of the direct acquisition loans reflect the expected useful life of on-farm improvements, equipment, or chattel purchased with loan proceeds.

#### Recommendation 1.13

Regulatory policy should be changed to limit the FSA County Committee to determining basic eligibility of the borrower as a *farmer*, and not to review credit histories, farm loan applications, or other involvement in the credit process.

#### Recommendation 1.14

The FSA Administrator should take immediate action to implement the Lineof-credit loans authorized in Section 614 of the 1996 FAIR Act. Line-of-credit loans should be used for all routine and recurring operating loans using either



direct or guaranteed authorities and be targeted to small, beginning, or traditionally underserved farmers. This will extend production credit for a 5-year term without the need for re-application, enable production through good and bad years without interruption, and dramatically reduce staff work required to re-issue production loans yearly.

#### Recommendation 1.15

The FSA Administrator should give highest priority to the promulgation of regulations to fully implement the "Preferred Lender" and "Short Form Application" for guaranteed loans under \$50,000 as required in the 1992 Agriculture Credit Act amendments.

#### **Debt collection and offsets**

Statutory provisions defining borrowers' rights and methods of collection of FSA and other USDA debts have been provided in the 1987 Agricultural Credit Act, the 1992 Farm Credit Improvement Act amendments, the 1996 FAIR Act, and the 1996 Debt Collection Improvement Act. The debt collection and offsetting regulations have created unsolvable conditions for small farmers and left some with no options but bankruptcy.

For example, a livestock producer in North Dakota who suffered severe losses in the 1997 blizzards and excessive feed costs will still owe some unpaid balance on the principal of his operating loan due in the spring of 1998. Offset policy requires that the expected Livestock Indemnity Program payments, implemented by Congress to ease this producer's financial crisis, as well as any FAIR Act transition payments, be held by the FSA against the unpaid portion of his debt. This producer, being delinquent and offset, cannot seek operating capital from any other source as he has no assignable source of income, and the 1996 farm bill prevents USDA from providing any continuing credit, loan servicing, or new loans. If this borrower was a client of a commercial bank he could negotiate a longer repayment term and remain in business, eventually repaying his entire note with interest. But, because he is a client of the Federal Government under current Federal collection policies, the result of the bad winter must be bankruptcy and farm dissolution. Legislative and administrative actions are necessary to correct the credit laws that are in conflict and that act together to the disadvantage of small farmers.

#### Recommendation 1.16

USDA should propose legislation to repeal the provisions that prohibit farmers who have previously had "debt forgiveness" from receiving any USDA loans or credit assistance.

#### Recommendation 1.17

USDA should propose legislation to re-instate the loan servicing methodologies and timelines provided in the 1992 Farm Credit Improvement Act amendments.

#### Recommendation 1.18

The Secretary should request the necessary waiver from the Treasury Department to eliminate the offsets in the following conditions:

a) debt collection, until all loan servicing options have been exhausted (otherwise, offset eliminates loan servicing options);

- b) all loan proceeds, including Commodity Credit Corporation loans and emergency loans;
- c) all emergency program proceeds, including the Livestock Indemnity program;
- d) where a previously approved assignment of proceeds is in place, existing assignments should be honored prior to offset in order to maintain the integrity of the FSA programs and their acceptance in the community.

# **Recommendation 1.19**

The U.S. Attorney should observe the moratorium on foreclosures pending case reviews issued by Secretary Glickman. This action is necessary because, despite assurances to individuals and groups, in many States the U.S. Attorney's Office is continuing to process and enforce foreclosures and indicate that the Secretary of Agriculture's moratorium has "no force or effect" on the U.S. Attorney.

### Recommendation 1.20

The Farm Service Agency should develop new lending procedures which substantially reduce the application process and form requirements for direct and guaranteed loans so that all loans can normally be approved or disapproved within 30 days of application; publish a formal check-list of application requirements so that applicants are fully aware of what is needed for a complete application; expeditiously allocate appropriated direct loan funds to the appropriate State FSA Offices with an absolute minimum held at national headquarters in Washington, DC; and, for loans under \$50,000, develop a separate short loan application form and a less intensive review process.

## Recommendation 1.21

The FSA Administrator should issue a national policy directive to reinforce or establish that an FSA appraisal shall remain in force for 1 full year; that all FSA appraised values for land, equipment, and chattel shall always be based on current agricultural use, not other potential development; that farmers shall be provided with copies of appraisals and supporting documents within 5 working days of completion of the appraisal; that appraisal reports shall be appealable decisions; and the proper method of contesting an appraisal shall be the existing formal USDA appeal process.

#### Recommendation 1.22

The Secretary should take immediate action to mitigate the pending credit crisis in the shared appreciation cases by asking Congress to extend the 10year shared appreciation period for small farmers until the land is sold. In addition, the FSA Administrator should issue a national policy that specifies that for purposes of determining the value of shared appreciation, on-farm improvements made during the life of appreciation plus any overall increase in the value as a result of the improvement, shall be subtracted from the appraised value, and that non-program loan fund authorities shall be used to extend appropriate payment terms for small farm operators with shared appreciation debts.



There has been an indifference to the needs explicitly unique to small farms, including minority and women-owned farms, for the last several decades. While there are USDA programs that assist small farms, they are generally underfunded and at levels that pale in comparison to the needs of the clientele and are not at all commensurate with the number of small farms. An explicit policy focus on small farms is needed to ensure that USDA's research, extension, marketing, credit, rural development, and conservation programs will undergird the performance of these farms.

Most disturbing are the indifference and blatant discrimination experienced by minority farmers in their interactions with USDA programs and staff. The Civil Rights Action Team, through its set of hearings and its report, boldly identified specific concerns of African-American and other minority farmers regarding relations with USDA's agencies with respect to credit, extension, applied research, and outreach. The history of discrimination by the U.S. Department of Agriculture in services extended to traditionally underserved<sup>27</sup> farmers, ranchers, and small farmers, and to small forestry owners and operators, is well documented. Discrimination has been a contributing factor in the dramatic decline of Black farmers over the last several decades. (See Figure 3). It was the complaints of discrimination against Black farmers in December of 1996 that gave rise to the creation of the National Commission on Small Farms. The Commission heard testimony in Tennessee, California, and Hawaii regarding the need for USDA, the land-grant university system, and nonprofit organizations to specifically target underserved minority farmers. The National Commission on Small Farms makes the following recommendations relative to civil rights and equal opportunity at USDA:

Recommendation 1.23

The Commission supports the full implementation of all 92 recommendations of the CRAT report and urges the Secretary of Agriculture to move expeditiously to take all actions necessary to implement these recommendations. USDA should give full support to legislation sponsored in Congress by members of the Congressional Black Caucus to make statutory changes to facilitate implementation of the recommendations. The Secretary should make sufficient funding available in budgetary requests and pursue these through the Congressional appropriations process. The Secretary should take discretionary actions to fully implement the CRAT recommendations and institutionalize the process of civil rights implementation, compliance, and enforcement within the USDA. In various sections of our report, the Commission supports, emphasizes, and builds upon various recommendations of the CRAT report. These include: CRAT recommendations 9, 38, 39, 40, 60, 61, 62, 63, and 64.

Recommendation 1.24

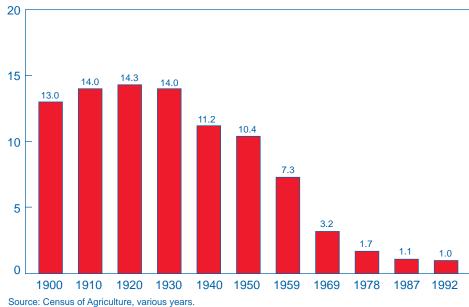
The Commission strongly endorses CRAT recommendation No. 28 to develop a national registry of minority farmers and landholdings. The registry will be an important source of information to conduct outreach and support services to

Traditionally underserved" generally refers to ethnic minority farmers, including African-American, American Indian, Hispanic or Asian-Pacific Islanders, as well as women farmers.

Figure 3

# **Share of Farms Operated by Blacks, Selected Census Years**, 1910-92

Percent of all farms



traditionally underserved farmers nationwide. This action will support the Commission's principles of wider opportunities for and pluralism in the ownership of land in our Nation. The registry should be used as a baseline to record the current ownership of farmland by the traditionally underserved and be used to measure the progress toward expansion of minority land ownership in the future.

#### Recommendation 1.25

There has been a history of under-allocation of resources to institutions that have served minority farmers. These institutions have developed extensive experience, professional expertise, and grassroots programs to serve this clientele. The Commission recommends that a significant share of any new resources directed at serving these traditionally underserved farmers be allocated to and provided in partnership through the 1890 Land-grant Colleges and Universities, the 1994 Tribal Colleges, and those 1862 Land-grant Universities with demonstrated programs of support for traditionally underserved farmers, and community-based organizations that have a history, demonstrated experience, and expertise in serving minority farmers.

#### Recommendation 1.26

The failure to elect minority farmers to positions on the Farm Service Agency (FSA) County Committees is disgraceful. Only 192 of 1,849 voting members of FSA County Committees are minority farmers. Therefore, the Commission recommends that in counties or multi-county areas where more than 10

percent of the farm owners and operators registered with the FSA office are minority farmers, one or more members of the FSA committee be a traditionally underserved person, selected by one or a combination of the following methods:

- a) direct election for this specific seat by minority farmers;
- b) cumulative voting to allow minorities to fill seats on the FSA committee in proportion to their involvement in the farm population; or
- c) the county committee be expanded by at least one seat and appointed by the FSA State Executive Director, based on nominations by traditionally underserved farmers in the area or by organizations that represent these farmers.

The National Commission on Small Farms urges the Secretary of Agriculture to settle all outstanding claims of discrimination by farmers and employees against the USDA. The Secretary of Agriculture should seek to resolve all court cases as expeditiously as possible.

USDA should recognize the distinct differences and needs of small farmers in the U.S. territories and possessions, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and the Commonwealth of the Mariana Islands. Because of the difference in climate, soils, topography, cultures, and farming traditions, USDA programs applied on the mainland are not always appropriate to serving the needs of farmers in U.S. territories and possessions. The Secretary should assemble a team of field staff from these areas, along with USDA administrators of research, extension, conservation, forestry, and marketing programs, to assess the program barriers to small farm operators from U.S. territories and possessions and make necessary changes to meet their needs.

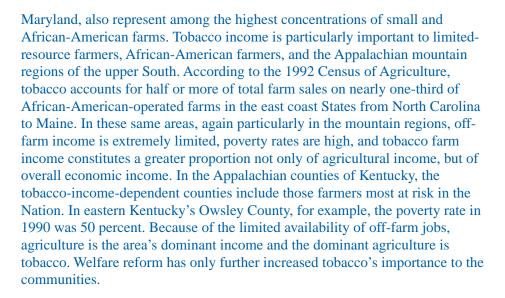
#### Tobacco settlement

Farm families and their communities in the tobacco-producing States are experiencing a dramatically uncertain future. For over five decades, small farmers, African-American farmers, and new and beginning farmers in these States were cushioned from many of the economic pitfalls facing other farmers, by a tobacco price support and production control program operated through a partnership with the Federal Government and tobacco farmer organizations. The tobacco program, not simply the crop itself, has enabled small farmers to experience a comfort unlike any other farm group —assurance and certainty based on a system that worked. As they participate in other agricultural markets, count the dwindling profits from other products, and watch neighboring dairy, livestock, and grain farmers failing, tobacco farmers are perplexed by well-intentioned, though profoundly faulty, offerings for their options. It's not the tobacco crop for which there is no alternative, but the tobacco program itself.

It is no accident that the tobacco States and communities, including North Carolina, Kentucky, Tennessee, South Carolina, West Virginia, Virginia, and

# Recommendation 1.27

# Recommendation 1.28



In the 18th Annual Family Farm Report to Congress, 1993, the USDA reported that although the Corn Belt had the largest number of farms in 1993, the Appalachian Region (Kentucky, North Carolina, Tennessee, Virginia, and West Virginia) was second with 299,000. "Farms, however, were considerably smaller in the Appalachian Region than in the Corn Belt in terms of average acres, average gross cash income, and average gross sales," the report stated, adding that 85 percent of America's tobacco farms are in this region. The USDA reported 91,787 tobacco farms, with 147 acres (mean acres operated), producing \$32,000 (mean gross cash income); and as shown in the following table, the tobacco States correspond to those States with large numbers of small farms.

Share of small farms within tobacco states <sup>a</sup>	
State	Percentage of Small Farms in the State
Indiana	55
Kentucky <sup>b</sup>	73
North Carolina <sup>b</sup>	63
Maryland	61
Missouri	67
Ohio	61
South Carolina	76
Tennessee <sup>b</sup>	82
Virginia <sup>b</sup>	74
West Virginia <sup>b</sup>	88

Source: 1992 Census of Agriculture

<sup>&</sup>lt;sup>a</sup> This listing does not include States such as Connecticut and Pennsylvania where tobacco accounts for only a very small proportion of overall agricultural production.

<sup>&</sup>lt;sup>b</sup> Indicates Appalachian Region State where 85 percent of tobacco is produced.

Although tobacco production has been a source of controversy for years, the tobacco program more recently became the focus of more concerted and serious examination with the landmark "global settlement" between the States' attorneys general and the tobacco companies in June of 1997. This \$368 billion settlement, if approved by Congress, will drastically change Federal regulatory and health policy regarding tobacco sales, distribution, and, by all predictions, tobacco production. The tobacco farmers and the tobacco price support program were not addressed in the proposed tobacco settlement.

Since June 1997, several major Congressional proposals have been introduced affecting both the tobacco product sales, tobacco production and the tobacco program. Since the Commission's single meeting in tobacco country, held in Memphis shortly after the settlement was announced, Congressional hearings have begun on the tobacco settlement and bills have been introduced to end the tobacco program. If Congress proceeds to cut this safety net out from under them, all tobacco farmers, their communities and urban centers who rely on the tobacco economy will be at great risk, the extent of which is currently only speculative. Agricultural economists in Kentucky estimate that as many as 50 percent of the tobacco farms will be eliminated if the tobacco program is terminated, primarily the small farms.

Recommendation 1.29

The Commission recommends that USDA, the Office of the President, and Congress carefully examine the success of the tobacco program and clearly evaluate the economic, social, and environmental impact of program changes. USDA should proceed immediately to develop a comprehensive assessment of the social, economic, and environmental impact of the Federal price support's 50-year program in the tobacco-producing States, particularly with respect to the farmers and the communities, towns, and cities directly affected by a tobacco economy, reporting to the President and Congress within 60 days of receipt of the Commission's report. The assessment should examine both longterm and short-term options and impacts of these options, particularly on small and limited-resource farms and African-American farmers. The study should assess the complex range of social and economic factors associated with the tobacco price support and develop recommendations for systems and processes to stimulate and sustain local economies in the event that the tobacco program is phased out. USDA should conduct this review jointly with other partners and agencies concerned with the full range of a healthy community, including other Federal agencies, such as the Appalachian Regional Commission; Department of Commerce; Environmental Protection Agency; Departments of Health and Human Services, Housing and Urban Development, and Labor; Tennessee Valley Authority; State and local governments, including associations such as the Southern Governors Association, the National Association of Counties, National League of Cities, which provide liaison with State and local governments; private sector representatives including farm service and supply businesses, banks and other lending institutions, manufacturers and small businesses, and organizations which work with local private sector groups; regional and locally based community development corporations; farm organizations and cooperatives; and nonprofit organizations working with farmers, rural development, public health, and community economic development.

As part of this initiative, USDA should request and assist the Office of the President, jointly with States' Governors and Congressional delegations, in convening town meetings and community gatherings throughout the tobaccoproducing States to solicit input and recommendations for sustaining healthy tobacco communities, particularly where small and limited-resource farmers, African-American farmers, and new and beginning farmers operate, with recommendations for the systems and programs for ensuring farmer-based, locally driven community development consistent with good stewardship of the region's natural resources.

#### **Recommendation 1.30**

The Commission further recommends that USDA, Congress, and the Office of the President target the Commission's suggestions and recommendations which concern access to credit, market development and opportunities, and new farmer initiatives to the tobacco-producing States and communities for priority testing and implementation in 1998. The targeting should be based on the lessons learned from the assessment described above and the process for its development.

# Loan performance reporting

Economic Research Service data on USDA loan performance received by the Commission indicates very high levels of delinquencies, with a 23-percent past due rate on principal and interest in direct loans. Highest delinquencies were reported for emergency loan programs, and loss figures for the program are reported at over \$1 billion for the past 2 years, a figure projected to remain virtually constant. In contrast, guaranteed loan delinquencies and loss figures are reported at significantly lower levels of 2 percent delinquent and annual loss of \$46 million in 1996. With the Commission's increased emphasis on direct lending for small farm operators, it is important to try to determine a reasonable process to improve collections.

In reviewing the data to develop specific recommendations, as well as conferring with representatives of the commercial banking industry, the Commission found that, for numerous critical reasons, the data from commercial lenders and the guaranteed program banks is not comparable with the FSA direct lending data. Federal commercial banking regulations place strict limits on the amount of non-performing or risk-rated loans a bank may have on the books at any one time. These same regulations place specific time limits on the bank's ability to collect unpaid loan balances. It is in the best interest of bank managers to minimize their non-performing portfolio in reports to management and stockholders.

For these simplified reasons, commercial banks take aggressive action to resolve delinquencies, including restructuring loans, re-appraising collateral

#### **Policy Goals and Recommendations** *Policy Goal 1*

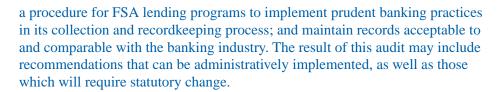


when necessary, entering into long-term repayment agreements and, finally, turning over non-performing loans for collection and taking them off their books. The end result is that banks do not report non-performing loans more than a couple years old; these are written off, sold for collection, or otherwise disposed of to keep the bank's balance sheet in compliance with prudent banking practices and Federal regulation. This is a routine, if undesirable operation which is figured into risk equations for determining interest rates and profit, but because it is a constant, ongoing process, no single year results in delinquency of loss figures above acceptable minimums.

The former Farmers Home Administration credit programs, currently included in FSA, never implemented "prudent banking practices" or other procedures to eliminate bad debts or reflect transfer to collection processes. Additionally, at various times Congress has acted to prevent or modify collection actions. The result is FSA records that include as "delinquent balances" forgiven balances from loans that were written down, debt settled, or foreclosed many years ago. Also included is continuously accruing interest on these amounts, leaving an artificial unpaid balance. Finally, the reports received by the Commission from ERS state that emergency loan programs "account for two-thirds of total deficiencies" and "losses continued to be concentrated in the Economic Emergency and EM (emergency disaster loans) programs." The Economic Emergency Loan program is no longer an active program. It is nearly impossible to determine how to improve FSA collection efforts because direct loan records are not in any way comparable with guaranteed loan records or commercial bank records, and a huge proportion of reported delinquencies are so old and tainted as to be totally uncollectable. This problem will continue to create confusion and Congressional opposition to increased appropriations for direct lending until the books are corrected and comparisons of programs can be based on commonalities.

Recommendation 1.31

The FSA Administrator should enter into a short-term contract with a private firm to audit the FSA direct loan records. The purpose of this audit shall be to develop a process to purge these records of old and uncollectable loans; setup



# **Program bias**

If the potential contribution of small farms is to be realized, USDA must make concerted efforts to identify and nurture this potential as suggested in the recommendations above. At the same time, those policies and regulations that intentionally or unintentionally stifle the potential growth and productivity of small farms must be identified and changed.

For example, the Commission heard testimony from a Soil and Water Conservation District Director in the Southwest who raised concerns about NRCS' use of "acres of land treated" and "acres brought under conservation plan.s" These indicators create the incentive for some NRCS conservationists to set high acreage goals to fulfill their progress reporting requirements. Some conservationists shy away from working with small farms due to the high planning goals they are asked to accomplish and tend to accept large tracts over small tracts. However, an NRCS conservationist stated that it takes just as much time to complete a resource management system plan on a small farm as it does for a large farm.<sup>28</sup> Since small and traditionally underserved farmers and ranchers historically own/operate relatively small acreage, the emphasis should be placed on the number of individuals (farms, ranches) receiving assistance as opposed to how many acres were treated.<sup>29</sup>

Another example of programmatic bias against some small farms is the 5-year requirement for Environmental Quality Incentive Program (EQIP) contracts. For small farmers who lease land, often on a yearly basis, and those who lack the economic security to make long-term commitments, the 5-year requirement prevents them from accessing the conservation benefits of EQIP. A participant at the Sacramento meeting said this about EQIP: "While well intentioned, what this is tending to do is exclude... tenant farmers—two-thirds of our farmers are tenants and the eligibility requirements for becoming part of these programs is a 5-year lease at the minimum. No one's heard of a 5-year lease in California. Two years is typical—some three years."30

USDA policies, programs, and regulations should be reviewed to identify program rules and regulations that are either intentionally or unintentionally biased against small farms or that offer potential to be of greater benefit to small farms if programmatic adjustments were made. A review process should be completed within 6 months with a report delivered to the Secretary.

Recommendation 1.32

<sup>&</sup>lt;sup>28</sup> Letter received from Patricia Mari, USDA-NRCS, Geenfield, MA. September 4, 1997.

<sup>&</sup>lt;sup>29</sup> Omar Garza, dryland farmer and Starr County, Texas Soil and Water Conservation District Director, public meeting in Albuquerque, NM. September 4, 1997.

<sup>&</sup>lt;sup>30</sup> Daniel Mountjoy, testimony at the public meeting in Sacramento, CA, on September 15, 1997.

- a) NRCS conservation technical assistance: The Natural Resources Conservation Service (NRCS) programs should be developed in consideration of the needs of the farms and natural resource concerns, rather than the size of the farm or how far the Federal dollar will go. NRCS should develop a method of employee evaluation that encourages assistance to small farm operators. State and local partners should also be encouraged to develop similar evaluation criteria. Incentives should be offered to encourage small farm operators to develop conservation plans.
- b) **EQIP:** The 5-year contract must be re-evaluated to accommodate small farms, particularly tenant farmers who have less than 5-year leases. Hardship provisions for small farmers and tenant farmers should be addressed, allowing them to deviate from the 5-year contract in certain circumstances. An "exit" or "temporary suspension" provision should be created for small farms if they encounter financial hardship and cannot fulfill their 5-year contract.
- c) Rural Development's Intermediary Relending Program, Rural Business Enterprise Grant Program, and Business and Industry Guaran**teed Loan Program:** These 3 rural development programs should be reviewed to assess the types of agricultural-based rural development projects funded in recent years. They should be evaluated according to criteria of sustainable rural development. Regulations should be reviewed to determine to what extent they benefit small farms or large farms. For example, a recent regulation change allows for Business and Industry loans to be made for agricultural production "when it is part of an integrated business also involved in the processing of agricultural products."31



<sup>31</sup> RD Instruction 4279.113 (h).

- Projects awarded funding under this regulation should be examined to determine if they limit marketing opportunities for area farmers not involved in the vertically integrated projects.
- d) Risk Management Agency's Revenue Assurance Program: The new revenue assurance programs are offered for the major commodities. These programs are likely to favor large farms growing single crops and are not a good fit for small farmers with diversified cropping systems. There is no limit to the amount of coverage a farmer can purchase. This program should be examined to determine how revenue assurance can be made more appropriate to the needs of small farms. (See also Policy Goal 6, *Recommendation 6.11.*)
- e) Rural Development's Rural Business-Cooperative Service (RBS) programs: A program review should be conducted to assess the research and technical assistance provided by RBS program staff. Reviewers should examine to what extent the needs of small farm operators are met and whether or not the services provided are balanced between the needs of larger, well-established cooperatives and smaller, new and innovative cooperatives.
- ship Incentive Program: Oftentimes forestry programs seem to focus on the large customers at the expense of the small farm and ranch operators and owners of woodlot. The Forest Stewardship program is a good example. This program is designed to provide forestry technical assistance to woodland owners. Small woodland owners are unable to justify financially the expense of purchasing forestry expertise. Larger landowners can more easily afford expertise because of higher volumes and larger anticipated returns. The Commission recommends that the existing Federal technical and financial support programs for forestry be examined for inadvertent discrimination against small woodlot owners. Federal programs should focus on the successes of individual farmers and ranchers, regardless of the size of operation.